

A report on the looming Mortgage Foreclosure Crisis in the United States.
By Mayor Richard J. Kaplan
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For several years we have enjoyed significant increases in our property values. It has been fueled by easy credit, low interest rates, limited available housing, particularly affordable housing, and it was spurred on by lenders who were earning high profits often through selling sub prime mortgages and short term adjustable rate mortgages.

Many of these mortgages were given to people that should never have received them. In some cases borrowers should have been placed into lower cost (and less profitable to the lender) prime mortgages. Some should have been placed in less expensive products, and some mortgages were given to borrowers that truly did not qualify for a mortgage. Therefore, in many of these cases profit and greed came before doing what is right for the customer, especially customers that do not have the knowledge to protect themselves. The result we are now seeing is massive foreclosures countrywide that should have been avoided in the first place. Florida presently has the second most properties in foreclosures of any state in the country, 130,000 properties.

These mortgages have trigger points, where the so called lower interest "teaser rate" expires, and the new higher interest rates kick in, usually within 2 to 3 years. These higher interest rates can be over 12%. The peak for funding these sub-prime and adjustable rate mortgages was during 2004 and 2005, with a trigger adjustment period peaking between 2006 and 2008. The peak month for the trigger is projected to be May 2008. In Broward County, 42% of all mortgages in 2006 were sub-prime mortgages.

As these triggers occur, the projection of increases in mortgage defaults and foreclosures are expected. It has been reported that 20% of all sub-prime mortgages from this time period will go into foreclosure, unless quick action is taken. This concern, among others, is the reason why Mayors throughout the country have taken aggressive action to address the situation. Cities have been working hard to have people live the American dream so that they can own their own home. This is a threat to the American dream because it can have serious consequences such as:

- 1) Loss of one=s house.
- 2) Abandonment of houses which cause deterioration of neighborhoods.
- 3) Devaluation of property in general throughout a neighborhood.

Additionally, mortgage defaults can have major implications to our financial markets and our national economy.

Though we had tried to bring this problem to light previously, and have publicly spoken about it before, we received little response from anyone. However, at the U.S. Conference of Mayor=s June meeting in Los Angeles earlier this year, we had a special session with lenders and other public groups to try and address this situation before it got any worse. I was a participant at that meeting. Finally we had people listening to

us. From this meeting a Study was commissioned to evaluate the situation and determine the severity. We also agreed to subsequently meet to review the findings and develop steps to overcome this impending crisis. That report has recently been issued.

Upon receiving this report, we set up our next meeting to work on solutions, the first of which was November 27th in Detroit that I attended. This meeting included major lenders, such as Countrywide, Washington Mutual, Wells Fargo, Flagstar, with many other lenders, along with the Mortgage Brokers Association, several not for profit organization, federal officials, and other interested invited participants.

This meeting in Detroit only included certain select mayors, of which I was one of the seven originally selected. Three others local Mayors came by for a short time to participate. It was our intention to limit the number of Mayors who had special knowledge or involvement in this issue so that we could concentrate on working out solutions with the other participants.

It was closed to the public at the request of lenders, which we agreed to so we could try and deal with a very difficult subject matter. To say that the Mayors, including myself, were not very nice at this meeting is somewhat of an understatement. I don't think we could have said some of the things we said in a public forum, but I can honestly say we represented the public extremely well in the short time we had.

We sought solutions to:

- 1) Promote home preservation.
- 2) Avoid foreclosures.
- 3) Provide proper property management when foreclosures occur and
- 4) Working on prevention so that we can avoid this situation in the future.

Each area of the country is suffering the results of this situation though the factors are different in various areas of the country. Such factors are the economics of the region, job loss, the reduction in population, and the over building within an area, among others.

The report that I mentioned before, known as the US Metro Economies, the Mortgage Crisis, which is an economic and fiscal implication report from metro areas dated November 2007, provided the following information concerning the mortgage foreclosure crisis:

- 1) That in 2008 the US GDP will be \$166 billion lower.
- 2) That there will be 524,000 fewer jobs.
- 3) That there will be a \$1.2 trillion loss in US property value of which \$80 billion will be in Florida
- 4) Foreclosures in 2008 will increase to 1.4 million at a market value of \$136 billion.
- 5) New home buildings will continue with its decline into the second quarter of 2008 with housing starts being around 800,000, a drop of 20% from current levels. Housing starts in Florida were 278,800 and 2008 is projected to be only

90,700.

6) In 2008 there=s a projected property tax reduction country wide of \$589 million, and as stated before, \$80 billion of it is in Florida. Sales tax will be reduced which for Florida is \$148 million and documentary stamp tax will be reduced of which \$99 million will be in Florida.

7) The Miami-Ft. Lauderdale urbanized area will have a loss in GMP of \$2.082 billion. GMP means Gross Municipal Product.

8) Previously the projected Lifetime foreclosure rate of a sub-prime mortgage in Florida from 1998 to 2001 was 10.1 %. For 2006 it=s 16.9 %. Broward County from 1998 to 2001 it was 9.5% and from the year 2006 was 17.9%. I don=t know what Lauderhill=s statistics are yet but we did receive a report of the number of foreclosures and vacant properties in the city of Lauderhill recently, which did not appear to include any condominiums.

In Broward alone there are 2122 residents that last month were behind on their mortgages and faced losing their homes to lenders, almost triple the 732 of a year ago. Last month Broward had 710 foreclosures which have more than doubled from 344 a year ago.

Interestingly enough the US Conference of Mayor=s has been asking for FHA reform for the last 5 years. We also asked for strengthening underwriting standards and for legislation to deal with predatory lenders. We asked, but no one acted. Now we are seeing the results.

How does this affect Florida? As to the transfer tax reduction, some of those state funds go to our Lauderhill's SHIP Program which would indicate that we would have a reduction in available funds in the future. These funds are used to help people to buy homes and to provide repairs to existing homes. They can also be used to help save people's property from foreclosures, so the downturn in this funding source would actually be counter-productive to our ability to counteract the potential for preventing people from losing their homes. Of the sales tax collected state wide, the City receives one half of one cent. Because of the reduction of the sales tax collections, we can likewise see a reduction in sales tax revenue from the State for our city.

Finally, as to property tax reduction, that will be a mixed bag. The reason being is that while property values will come down, which will improve the situation for non homesteaded property (such as renters and business properties), as well as newly homesteaded property, those that have enjoyed the Save our Homes Protection will find their taxable values will be going up, and therefore their taxes.

The reasoning being is that the taxable values have been limited to a maximum 3% cap for many years, even while the full assessed values were exceeding 12%. Therefore, they have a built in cushion that could take several years, if ever, to have their taxable property values equal their full assessed value, irrespective of the amount of property devaluation incurring during this time. As to how the proposed constitutional amendments will further affect the city, that is beyond this report, but it could actually

make the situation worse for everyone.

So what are the results of this meeting? We set out to find solutions to this ever increasing problem. The first step that we came up with is to create communication between borrowers and lenders. Less than one half of the people who have trouble with these mortgages will ever talk to their lender. Early intervention is key to solving a borrower's problem. People are afraid to ask for help, either because they are embarrassed, or concerned that something worse might happen, or simply afraid of losing something which is precious to them.

So as Mayors, we have talked to all the organizations that were at our table to find out how we can all assist each other on arranging early intervention and get the word out. To this they connected with a not for profit agency and are now funding the Homeowners Hope Hotline, 1-888-995-HOPE. This telephone number operates 24/7 and is in English and Spanish. Anyone who is facing default or foreclosure is encouraged to call this phone number. Don't be afraid to call. Don't be afraid to ask for help. The lenders, through specially trained counselors, have promised to listen and to help.

The problem with the present situation is while the lenders and mortgage brokers associations will be financially supporting this hotline, they project that they are 450 counselors short in order to satisfy the needs to properly handle the volume of calls they are expecting. This situation is being quickly addressed and we will have future discussions concerning this matter. This should not discourage anyone from calling.

The US Conference of Mayor=s will also be encouraging Mayors, such as myself, to develop public service announcements to get this word out. I will be attending the US Conference of Mayor=s winter meeting in January in Washington D.C. where they will be taping free public service announcements on this matter. Additionally, we are encouraging the lenders, as part of our outreach efforts, to invest in paying prime time advertising to broadcast these spots. It doesn't serve very well if these public service announcements are broadcasted at 3:00 A.M. We need to broadcast them to people when they are actually watching television.

As to properties that have been foreclosed, we are working with the Mortgage Bankers Association in their creation of a free on line data base that will list lenders and who they have hired in providing service so as to maintain the property. This data base will help local officials so we can quickly contact someone to avoid property from going into disrepair, and thereby impacting the rest of the neighborhood. This system was very recently made operational, and we as a city, must tap into this resource.

Finally, we need to work on financial education. We will be working with organizations to instill into our schools educational programs to teach students about borrowing. Those school systems that are run by Mayors will easily be able to institute such programs. Otherwise, it will take time for these programs to be implemented.

As a city, Lauderhill has been providing such financial education in certain situations. When we have provided mortgages on new housing through our SHIP and Home Program, borrowers must complete an educational course on finance and budgeting. These programs are headed up by Vince Miller. Previously, our educational finance courses were through the Dollar Wise Program of the US Conference of Mayors, and presently it is conducted through the Urban League. What was left out of the discussions was the ability to educate those people that may have immigrated to the United States and others that may never had an opportunity to receive this financial education. We have not yet addressed this and it is something that will be worked on in the future.

We are also working with the Federal Congress to pass legislation to provide assistance and to prevent this from occurring in the future. The House has already passed House Bill 3192 which should be shortly taken up in the Senate. It provides protection in preventing borrowers from being steered into inappropriate mortgages. Lenders would be subject to a federal duty of care and be required to have a license. Minimum standards for borrowers will be established, and regulations concerning packaging and reselling of loans in the market, among other provisions.

Additionally, the Treasury Department announced an agreement with the mortgage industries to temporarily freeze the lower interest rates on certain troubled sub prime mortgages. This agreement should have a positive effect on 20 to 30% of those sub-prime mortgages that would otherwise go into default once the higher interest trigger would kick in.

Our work is not done, and we will continue our work at the January meeting discussed before. We recognize that this situation has the potential for several even more serious problems, and we are doing everything we can to prevent them from happening. At the time of the January meeting, the Conference should be able to release a more detailed plan of action and an updated report. We expect to have in attendance additional players that are involved in this situation.

I have provided to the commissioners, and to others, some backup material to help understand the situation better. I encourage everyone to read this material. The good news is that we were able to address this situation now, and not later. By doing so, we are taking appropriate steps to prevent this problem from becoming even worse, and we know that our work will directly help many. By taking aggressive action now we believe that it will save potentially millions of US residents significant heartache, loss of property and save millions of dollars. It will help our communities get through this. We are extremely pleased that we got this attention now, rather than in 6 months or a year from now, when we know it will be far worse. Addressing it as early as possible is critical to avoid greater misfortune to many.

I know we will strive to avoid a major housing and economic crisis because of all the positive actions that we are now taking. I have every confidence that we have workable solutions that are being put in place as we speak. Thank you.